

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-10 NSAE-00 ICA-20 XMB-04 OPIC-06 SP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01
L-03 H-02 AGRE-00 DOE-15 SOE-02 PA-02 /139 W
-----094790 120037Z /15

R 111746Z JUL 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 8002
TREASURY DEPT WASHDC
INFO ALL EC CAPITALS
AMEMBASSY OTTAWA
AMEMBASSY TOKYO

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USEEC ALSO FOR EMBASSY
USOECN ALSO FOR EMBASSY

E.O. 11652: N/A
TAGS: UK, EFIN, ECON
SUBJECT: REACTION TO BREMEN -- THE PRIME MINISTER AND
HMTREASURY EXPRESS THEIR VIEWS

1. IN HIS JULY 10 REPORT ON THE OUTCOME OF THE BREMEN MEETING, THE PM TOLD THE HOUSE OF COMMONS OF THE FRANCO-GERMAN SCHEME FOR EUROPEAN MONETARY COOPERATION. ACCORDING TO PRESS REPORTS, CALLAGHAN SAID THAT THIS PROPOSAL WOULD BE THE STARTING POINT FOR THE JULY 24 MEETING OF EC FINANCE MINISTERS. THIS MEETING IS AIMED AT FORMULATING GUIDELINES FOR A POSSIBLE SCHEME, THE DETAILS OF WHICH WOULD BE ELABORATED BY OCT. 31 WITH FINAL CONSIDERATION SLATED FOR THE DEC. 4-5 EUROPEAN COUNCIL MEETING. CALLAGHAN STRESSED THE NEED FOR FULLER PREPARATION AND CONSIDERATION OF ANY PLAN FOR MONETARY COOPERATION SINCE "ANY NEW SYSTEM MUST BE ONE WHICH WILL LAST AND WILL TAKE FULL
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ACCOUNT OF THE ECONOMIC, AS WELL AS MONETARY, INTERESTS OF EACH MEMBER OF THE COMMUNITY." HE ADDED THAT "THE HOUSE MUST TAKE THE DECISION WHETHER WE WISH TO REMAIN POOR AND INDEPENDENT OR SACRIFICE SOME POWERS AND REMAIN MORE PROSPEROUS."

2. THE PM SAID THAT HE "PRESSED FOR PARALLEL STUDIES TO

BE MADE OF THE ACTION THAT IS NECESSARY TO ENSURE A GREATER CONVERGENCE IN THE ECONOMIES OF MEMBER COUNTRIES, ESPECIALLY IN SUCH MATTERS AS THE COMMITMENTS TO GROWTH AND TRANSFERS OF REAL RESOURCES. IT WAS AGREED TO CARRY OUT SUCH STUDIES."

3. IN THE DEBATE FOLLOWING CALLAGHAN'S STATEMENT, THE LEADER OF THE OPPOSITION, MRS. THATCHER, WELCOMED THE CONCEPT OF A CURRENCY STABILIZATION SCHEME BUT STATED THAT "NO SUCH SCHEME CAN EVER BE A SUBSTITUTE FOR RUNNING OUR OWN ECONOMY IN A SOUND FINANCIAL WAY."

4. THE PM'S SOMEWHAT NUANCED PUBLIC ENDORSEMENT OF THE FRANCO-GERMAN INITIATIVE WAS ECHOED IN A FRONT-PAGE ARTICLE BY DAVID BLAKE IN THE TIMES OF JULY 11 DETAILING ALLEGED SKEPTICISM IN HMTREASURY OF THE SCHEME'S WORKABILITY. BLAKE REPORTS THAT THE BASIC SUBSTANTIVE OBJECTION OF HMT TO THE SCHEME CENTERS ON ITS GENERAL VAGUENESS AND THE CONFUSED TERMS IN WHICH IT IS COINED. HE MENTIONS A DEEP SUSPICION THAT THE SCHEME IS "LITTLE MORE THAN A MEANS OF HOLDING DOWN THE MARK AND IMPOSING RESTRICTIVE POLICIES ON GERMANY'S PARTNERS."

5. WITH REGARD TO ELEMENTS OF THE SCHEME RELATING TO THE DOLLAR, BLAKE STATES THAT THE SCHEME RESPONDS TO THE BRITISH POINT THAT THE DOLLAR MUST NOT BE DAMAGED BY CAL-

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LING FOR INTERVENTION BY PARTICIPATING COUNTRIES TO SOME EXTENT IN THEIR OWN CURRENCIES, NOT DOLLARS. BLAKE ALSO REPORTS THAT THE BRITISH VIEW IS THAT THE DOLLAR "WILL BE

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WEAK FOR SOME TIME TO COME, PROBABLY INTO NEXT YEAR."

6. BLAKE CHARACTERIZES THE TREASURY VIEWSON OTHER ELEMENTS OF THE SCHEME AS "ILL THOUGHT OUT." THESE INCLUDE

- THE REFERENCE TO THE NEW ARRANGEMENT BEING AT LEAST AS STRICT AS THE SNAKE;
- THE REFERENCE TO A 50 BILLION DOLLAR FUND.

7. WITH REGARD TO THE MARGINS WITHIN WHICH MEMBER COUNTRIES CURRENCIES COULD MOVE, BLAKE REPORTS: "THE COMMITMENT TO TIGHT MARGINS IS THOUGHT TO BE UNDERMINED BY THE WOOLLY PHRASINQ WHICH IMPLIES THAT PARITIES WILL IN FUTUE BE FIXED AGAINST SOME SORT OF BASKET OF CURRENCIES, THOUGH THIS IS UNCLEAR. THERE IS ALSO CONSIDERABLE UNHAPPINESS ABOUT THE UNCERTAINTIES ON JUST HOW THE 'POOLING OF RESERVES' WILL TAKE PLACE. THE BRITISH VIEW IS THAT MUCH OF THIS MERELY CONSISTS OF RELABELLING RESERVES WHICH ALREADY EXIST."

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8. TURNING TO TREASURY DIFFICULTIES OVER THE FUND, BLAKE STATES: "INSTEAD OF THE 50 BILLION DOLLAR FUND TALKED ABOUT, IT IS ARGUED THAT AT MOST HALF OF THAT WILL BE AVAILABLE IN NEW MONEY. MAJOR QUESTIONS ABOUT WHO WILL BE ABLE TO DRAW ON THESE RESERVES, AND UNDER WHAT CONDITIONS STILL REMAIN TO BE WORKED OUT."

BLAKE CONCLUDES THAT HMTREASURY VIEWS THE COMMITMENT TO GREATER CONVERGENCE OF ECONOMIC POLICIES AS UNACCEPTABLY WEAK. THE LANGUAGE CALLING ON SURPLUS AND DEFICIT COUNTRIES TO PURSUE POLICIES CONDUCIVE TO GREATER STABILITY COULD LEAVE ROOM FOR THE GERMANS TO CONTINUE RESTRICTIVE POLICIES.

9. BLAKE'S ARTICLE ECHOES OTHERS(BLANDEN IN FINANCIAL TIMES)BASED ON HMTREASURY BACKGROUND BRIEFING.

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